



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
WHITLEY COUNTY
SHERIFF'S SETTLEMENT - 1995 TAXES,
SHERIFF'S SETTLEMENT - 1994 UNMINED COAL TAXES,
SHERIFF'S SETTLEMENT - 1995 UNMINED COAL TAXES, AND
SHERIFF'S SETTLEMENT - 1996 UNMINED COAL TAXES**

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Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Michael L. Patrick, Whitley County Judge/Executive
Honorable Ancil Carter, Whitley County Sheriff
Honorable H. D. Moses, Former Whitley County Sheriff
Members of the Whitley County Fiscal Court

Independent Auditor's Report

We have audited the former Whitley County Sheriff's Settlement - 1995 Taxes as of August 12, 1997, the former Sheriff's Settlement - 1994 Unmined Coal Taxes and 1995 Unmined Coal Taxes as of April 21, 1997 and the former Sheriff's Settlement - 1996 Unmined Coal Taxes as of February 10, 1998. These tax settlements are the responsibility of the former Whitley County Sheriff. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The former Sheriff prepared his financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the former Whitley County Sheriff's taxes charged, credited, and paid as of August 12, 1997, April 21, 1997, and February 10, 1998, in conformity with the basis of accounting described in the preceding paragraph.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

To the People of Kentucky

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Honorable H. D. Moses, Former Whitley County Sheriff

Members of the Whitley County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following areas of noncompliance.

- Former Sheriff H. D. Moses Should Make Final Settlement For All Taxes
- Former Sheriff H. D. Moses Should Eliminate The Deficit Of \$73,379 In His Tax Account
- Former Sheriff H. D. Moses Should Have Required Depository Institutions To Pledge Additional Securities Of \$549,430 As Collateral And Entered Into A Written Agreement To Protect Deposits
- Former Sheriff H. D. Moses Should Have Prepared All Tax Reports And Made Tax Payments On A Timely Basis
- Personal Checks Should Not Be Cashed With Public Funds
- Interest Earned In Tax Account Should Be Paid To Schools And Sheriff's Fee Account
- Former Sheriff H. D. Moses Should Have Collected And Accounted For The Proper Amount Of Advertising Cost And Should Have Paid Advertising Cost To The County
- Former Sheriff H. D. Moses Should Have Recorded And Accounted For Sheriff's Fees
- Former Sheriff H. D. Moses Should Make Final Settlement For School Taxes
- Former Sheriff H. D. Moses should Have Taken More Care In The Collection, Distribution, And Processing Of Franchise Taxes
- Internal Controls Over Tax Collections Are Very Poor And Should Be Improved

In accordance with Government Auditing Standards, we have also issued a report dated August 6, 1999, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,



Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -

August 6, 1999

WHITLEY COUNTY
H. D. MOSES, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 1995 TAXES

August 12, 1997

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 387,460	\$ 372,879	\$ 1,184,346	\$ 696,437
Tangible Personal Property	79,083	73,385	150,070	274,285
Intangible Personal Property				144,122
Bank Shares	62,181			247,891
Fire Protection	3,841			
Franchise Corporation	176,274	168,934	668,690	
Prior year Franchises	2,086	1,893	11,087	
Additional Taxes	3,214	2,423	6,312	8,581
Increased Through Erroneous Assessments	56	54	292	101
Penalties	7,808	7,376	25,415	16,252
Adjusted to Sheriff's Receipt	(13)	38		(29)
Gross Chargeable to Sheriff	<u>\$ 721,990</u>	<u>\$ 626,982</u>	<u>\$ 2,046,212</u>	<u>\$ 1,387,640</u>
<u>Credits</u>				
Discounts	\$ 7,606	\$ 6,030	\$ 16,379	\$ 20,799
Exonerations	11,064	10,522	37,080	35,775
Delinquents:				
Real Estate	22,364	21,230	86,572	39,614
Tangible Personal Property	671	911	3,782	3,988
Intangible Personal Property				2,154
Uncollected Franchise	<u>3,081</u>	<u>2,977</u>	<u>3,259</u>	
Total Credits	<u>\$ 44,786</u>	<u>\$ 41,670</u>	<u>\$ 147,072</u>	<u>\$ 102,330</u>
Net Tax Yield	\$ 677,204	\$ 585,312	\$ 1,899,140	\$ 1,285,310
Less: Commissions (a)	<u>29,069</u>	<u>24,876</u>	<u>75,966</u>	<u>54,913</u>
Net Taxes Due	\$ 648,135	\$ 560,436	\$ 1,823,174	\$ 1,230,397
Taxes Paid	650,008	561,864	1,802,748	1,231,149
Refunds (Current and Prior Year)	<u>96</u>	<u>84</u>	<u>360</u>	<u>182</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ (1,969)</u>	<u>(b) \$ (1,512)</u>	<u>(c) \$ 20,066</u>	<u>\$ (934)</u>

(a), (b) and (c) See Page 4

WHITLEY COUNTY
H. D. MOSES, SHERIFF
SHERIFF'S SETTLEMENT - 1995 TAXES
August 12, 1997
(Continued)

(a) Commissions:

10% on \$ 10,000
4.25% on \$ 2,537,826
4% on \$ 1,899,140

(b) Special Taxing Districts:

Library District	\$	(321)
Health District		(420)
Extension District		(280)
Soil District		(491)
		<hr/>

(Refunds Due Sheriff)	\$	(1,512)
		<hr/> <hr/>

(c) School Districts:

Common School	\$	19,446
Corbin School		620
		<hr/>

Due School Districts	\$	20,066
		<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

WHITLEY COUNTY
H. D. MOSES, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 1994 UNMINED COAL TAXES

April 21, 1997

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>Common School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for Unmined Coal	\$ 6,877	\$ 6,204	\$ 37,861	\$ 12,998
Penalties	53	48	117	101
Gross Chargeable to Sheriff	<u>\$ 6,930</u>	<u>\$ 6,252</u>	<u>\$ 37,978</u>	<u>\$ 13,099</u>
<u>Credits</u>				
Discounts	\$ 123	\$ 111	\$ 677	\$ 232
Delinquents	132	119	729	251
Total Credits	<u>\$ 255</u>	<u>\$ 230</u>	<u>\$ 1,406</u>	<u>\$ 483</u>
Net Tax Yield	\$ 6,675	\$ 6,022	\$ 36,572	\$ 12,616
Less: Commissions *	<u>284</u>	<u>256</u>	<u>1,463</u>	<u>536</u>
Net Taxes Due	\$ 6,391	\$ 5,766	\$ 35,109	\$ 12,080
Taxes Paid	<u>6,391</u>	<u>5,766</u>	<u>35,109</u>	<u>12,080</u>
Due Districts as of Completion of Fieldwork	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

* Commissions:

4.25% on	\$	25,313
4% on	\$	36,572

The accompanying notes are an integral part of the financial statements.

WHITLEY COUNTY
H. D. MOSES, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 1995 UNMINED COAL TAXES

April 21, 1997

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>Common School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for				
Unmined Coal	\$ 6,175	\$ 5,943	\$ 33,266	\$ 11,088
Additional Taxes	16	13	88	32
Penalties	9	8	47	16
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Gross Chargeable to Sheriff	\$ 6,200	\$ 5,964	\$ 33,401	\$ 11,136
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Credits</u>				
Discounts	\$ 118	\$ 113	\$ 633	\$ 211
Exonerations	14	14	77	26
Delinquents	197	189	1,061	353
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Credits	\$ 329	\$ 316	\$ 1,771	\$ 590
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Tax Yield	\$ 5,871	\$ 5,648	\$ 31,630	\$ 10,546
Less: Commissions *	250	240	1,265	448
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Taxes Due	\$ 5,621	\$ 5,408	\$ 30,365	\$ 10,098
Taxes Paid	5,621	5,514	30,365	10,222
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
(Refunds Due Sheriff)		**		
as of Completion of Fieldwork	\$ 0	\$ (106)	\$ 0	\$ (124)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
* Commissions:				
4.25% on \$ 22,065				
4% on \$ 31,630				
** Special Taxing Districts:				
Library District		\$ (4)		
Health District		(101)		
Extension District		(1)		
		<u> </u>		
(Refunds Due Sheriff)		\$ (106)		
		<u> </u>		

The accompanying notes are an integral part of the financial statements.

WHITLEY COUNTY
H. D. MOSES, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 1996 UNMINED COAL TAXES

February 10, 1998

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>Common School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for Unmined Coal	\$ 3,822	\$ 3,748	\$ 19,849	\$ 6,699
Penalties	<u>2</u>	<u>2</u>	<u>10</u>	<u>3</u>
Gross Chargeable to Sheriff	<u>\$ 3,824</u>	<u>\$ 3,750</u>	<u>\$ 19,859</u>	<u>\$ 6,702</u>
<u>Credits</u>				
Discounts	\$ 65	\$ 63	\$ 339	\$ 114
Delinquents	<u>541</u>	<u>530</u>	<u>2,807</u>	<u>947</u>
Total Credits	<u>\$ 606</u>	<u>\$ 593</u>	<u>\$ 3,146</u>	<u>\$ 1,061</u>
Net Tax Yield	\$ 3,218	\$ 3,157	\$ 16,713	\$ 5,641
Less: Commissions *	<u>137</u>	<u>134</u>	<u>668</u>	<u>240</u>
Net Taxes Due	\$ 3,081	\$ 3,023	\$ 16,045	\$ 5,401
Taxes Paid	3,081	2	8	5,363
Add: State Penalty				<u>4</u>
Due Districts		**		
as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 3,021</u>	<u>\$ 16,037</u>	<u>\$ 42</u>
* Commissions:				
4.25% on \$	12,016			
4% on \$	16,713			
** Special Taxing Districts:				
Library District		\$ 662		
Health District		1,325		
Extension District		530		
Soil District		<u>504</u>		
Due Districts		<u>\$ 3,021</u>		

The accompanying notes are an integral part of the financial statements.

WHITLEY COUNTY
NOTES TO THE FINANCIAL STATEMENTS

August 12, 1997

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is utilized to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statements have been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statements. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation Permitted by KRS.41.240(4).

Note 2. Deposits

The Sheriff's office maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of June 28, 1996, the uncollateralized amount on deposit was \$549,430. The pledged securities and FDIC insurance did not equal or exceed the amount on deposit. In addition, the former Sheriff did not have a written agreement with the depository institution.

WHTLEY COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 August 12, 1997
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of June 28, 1996.

	<u>Bank Balance</u>
Collateralized with securities held by pledging financial institution in the county's name	\$ 2,050,000
Uncollateralized and uninsured	<u>549,430</u>
Total	<u>\$ 2,599,430</u>

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1995. Property taxes were billed to finance governmental services for the year ended June 30, 1996. Liens are effective when the tax bills become delinquent. The collection period for these assessments was May 1, 1996 through July 30, 1997.

1994 Unmined Coal

The tangible property tax assessments were levied as of January 1, 1994. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 20, 1996 through March 22, 1997.

1995 Unmined Coal

The tangible property tax assessments were levied as of January 1, 1995. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 20, 1996 through April 3, 1997.

1996 Unmined Coal

The tangible property tax assessments were levied as of January 1, 1996. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 23, 1997 through September 23, 1997.

Note 4. Interest Income

The former Whitley County Sheriff earned \$6,873 as interest income on 1995 taxes. The former Sheriff did not distribute the appropriate amount to the school districts as required by statute, and the remainder was not transferred to former Sheriff's fee account.

WHITLEY COUNTY
H. D. MOSES, FORMER SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

August 12, 1997

Assets

Cash in Bank \$ 13,309

Deposits in Transit \$ 21,709

Receivables:

98 Fee Account Check Charged to 95 Taxes 1,595

95 Taxes:

State 934

County 1,975

Library 321

Health 420

Extension 280

Soil 491

95 Unmined Coal Taxes:

State 124

Library 4

Health 101

Extension 1 \$ 27,955

Prior Year Receivables:

94 Tax Account:

94 Fee Account - CPA Schedule \$ 854

Interest Overpayment to Corbin School - 93 Taxes 382

Interest Overpayment to County School - 93 Taxes 1,550

Commissions Overpaid Fee Account 14,775

94 Taxes -

County 792

Health 839

Soil 2,726

Extension 648

Corbin School 799

93 Unmined Coal -

Health 161

Library 82

Conservation 38

Extension 60

County School 2,139

State 69

WHITLEY COUNTY
H. D. MOSES, FORMER SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS
August 12, 1997
(Continued)

Assets (Continued)

Prior Year Receivables: (Continued)

92 Unmined Coal -			
State	\$	162	
County		1,000	\$ 27,076
Total Receivables			<u>\$ 55,031</u>
Total Assets			\$ 68,340

Liabilities and Outstanding Checks

Outstanding Checks	\$	6,683
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Liabilities:

Obligations Paid After August 12, 1997	25,903
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Unpaid Obligations:

95 Tax Account:

Interest Due County School	2,588
Interest Due Corbin School	357
Interest Due Fee Account	3,928
Commission Due Fee Account	6,684
Sheriff's Fees Due Fee Account	5,893
Advertising Costs Due County	750
Refund Due Taxpayers	439
Refund Due Public Service Companies -	
Overcharged School Tax	272

95 Taxes:

County Fire	6
County School	19,446
Corbin School	620

96 Unmined Coal:

State	42
Library	662
Health	1,325
Extension	530
Soil	504
County School	16,037
	<u>\$ 92,669</u>

WHITLEY COUNTY
H. D. MOSES, FORMER SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS
August 12, 1997
(Continued)

Liabilities and Outstanding Checks (Continued)

Prior Year Liabilities:

94 Tax Account:

Interest Due Fee Account	\$	3,680	
94 Taxes -			
Library		8,418	
Fire		130	
County School		17,877	
93 Unmined Coal -			
County		988	
92 Unmined Coal -			
Health		150	
Library		75	
Soil		37	
Extension		58	
County School		2,128	
93 Taxes -			
Corbin School		14,536	
90 Unmined Coal -			
Ambulance Tax Paid by			
96 Tax Account		973	\$ 49,050

Total Liabilities and Outstanding Checks	\$	141,719
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Total Fund Balance - (Deficit)	\$	(73,379)
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COMMENTS AND RECOMMENDATIONS

WHITLEY COUNTY
H. D. MOSES, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

August 12, 1997

STATE LAWS AND REGULATIONS:

1) Former Sheriff H. D. Moses Should Eliminate The Deficit Of \$73,379 In His Tax Account

Based on available records, there was a deficit of \$73,379 in the former Sheriff's 1995 tax account. This resulted primarily from there being a deficit of \$ 22,019 from prior years, \$49,811 in undeposited tax receipts for 1995 taxes, and an unexplained variance of \$1,549. We recommend the former Sheriff eliminate this deficit by depositing \$73,379 from personal funds, collecting all receivable amounts due, and paying all obligation amounts due as shown in our Schedule of Excess of Liabilities Over Assets which is included in this report.

Management's Response:

No response.

2) Former Sheriff H. D. Moses Should Make Final Settlement For All Taxes

KRS 134.310 requires an accurate final settlement for tax collections. The following taxes owed and refunds due were not reported properly.

Based on our audit, the following refunds are due the former Sheriff and additional taxes are due the taxing districts for 1995 property taxes and 1995 and 1996 unmined coal taxes:

REFUNDS DUE SHERIFF

<u>Refunds Due Sheriff - 1995 Taxes</u>		<u>Refunds Due Sheriff - 1995 Unmined Coal</u>	
State	\$ (934)	State	\$ (124)
County	(1,975)	Library	(4)
Library	(321)	Health	(101)
Health	(420)	Extension	(1)
Extension	(280)		
Soil	(491)	Total	\$ (230)
Total	\$ (4,421)		

MONEY DUE TAXING DISTRICTS

<u>Money Due Taxing Districts - 1995 Taxes</u>		<u>Money Due Taxing Districts - 1996 Unmined Coal</u>	
Whitley County School	\$ 19,446	State	\$ 42
Corbin School	620	Library	662
Timberland	6	Health	1,325
		Extension	530
Total	\$ 20,072	Soil	504
		Whitley County School	16,037
		Total	\$ 19,100

Total refunds due are \$4,651 and taxes owed to districts total \$39,172.

WHITLEY COUNTY
H. D. MOSES, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
August 12, 1997
(Continued)

2) Former Sheriff H. D. Moses Should Make Final Settlement For All Taxes (Continued)

We recommend the former Sheriff settle 1995 property taxes and 1995 and 1996 unmined coal taxes by obtaining refunds of \$4,651 and paying total additional taxes of \$39,172 to the above taxing districts.

Management's Response:

No response.

3) Former Sheriff H. D. Moses Should Have Required Depository Institutions To Pledge Additional Securities Of \$549,430 As Collateral And Entered Into A Written Agreement To Protect Deposits

The former Sheriff's deposits were not adequately secured by \$549,430 as of June 28, 1996. Under provisions of KRS 66.480(1)(d) and KRS 41.240(4), banks are required to provide collateral for interest-bearing and noninterest-bearing deposits if either exceeds the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation. The Sheriff's office should require the depository institution to pledge sufficient collateral to secure deposits at all times. We also recommend the Sheriff's office enter into a written agreement with the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Management's Response:

This has been corrected.

4) Former Sheriff H. D. Moses Should Have Prepared All Tax Reports And Made Tax Payments On A Timely Basis

The former Sheriff did not prepare timely monthly reports for county taxes collected. By the month of May 1996, during the collection of regular 1995 taxes, the former Sheriff's office had requested four (4) extensions of time to pay the Revenue Cabinet, and payments were not made to some of the other taxing districts until late June and early July.

The former Sheriff collected twelve 1996 franchise tax bills totaling \$29,761 for which no reports were made or payments remitted to the county or other taxing districts.

WHITLEY COUNTY
H. D. MOSES, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
August 12, 1997
(Continued)

4) Former Sheriff H. D. Moses Should Have Prepared All Tax Reports And Made Tax Payments
On A Timely Basis (Continued)

For 1996 unmined coal tax collections, the former Sheriff paid and reported only state taxes, except for one small bill, collected in November 1997 and amounting to \$21, which was reported and distributed to all taxing districts. After the 1996 county settlement was completed, the county requested its taxes due and was paid the settlement amount of \$3,079 plus \$20 advertising cost. The remaining amount of 1996 taxes, \$19,096, is owed to the Whitley County School, special taxing districts, and the state and has not been paid. The 1996 franchise tax bills and 1996 unmined coal amounts are reflected in settlement totals and also in liability amounts mentioned in earlier comments.

We remind the Sheriff's office that KRS 134.300 requires tax reports and payments to be made by the 10th of each month following the collection of taxes. Any delay in payments disrupts each district's budgetary process and, in some cases, taxing districts may be required to borrow money to meet their budget obligations. We recommend the Sheriff's office prepare all tax reports and submit all money due each taxing district on a timely basis as required by law.

Management's Response:

No response.

5) Personal Checks Should Not Be Cashed With Public Funds

During the course of our audit, we obtained copies of checks that made up a January 29, 1997 deposit amounting to \$9,356. In the review of items that made up this deposit, we noticed that two employees of the Sheriff's office had checks deposited to the 1995 tax account that did not pertain to payment of their taxes. It appears that the employees were using the account for cashing personal checks. To withdraw public tax funds for any purpose other than the purpose for which they were received and deposited, is commingling of public and private funds and is prohibited by KRS 64.850. Only taxes or items relating to tax collections should be deposited to this account and at no time should the funds in this account be withdrawn and used for cashing personal checks. We recommend the Sheriff's office avoid cashing personal checks from tax receipts.

Management's Response:

No response.

WHITLEY COUNTY
H. D. MOSES, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
August 12, 1997
(Continued)

6) Interest Earned In Tax Account Should Be Paid To Schools And Sheriff's Fee Account

The former Sheriff earned \$6,873 of interest from March 1996 to May 1998, but did not pay the Whitley County and Corbin Independent School Districts their share of interest as required by statute. KRS 134.140(3)(b) requires the Sheriff's office to pay monthly (at the time of his monthly distribution of taxes to the boards of education) that part of investment earnings for the month that is attributable to the investment of school taxes. The remaining monthly interest should be transferred to the Sheriff's fee account. Our analysis of interest income for the above period indicates the former Sheriff owes the Whitley County Board of Education \$2,588 and Corbin Independent Board of Education \$357 for interest income. The remaining \$3,928 interest should be transferred to the former Sheriff's fee account. We recommend the former Sheriff pay the amount of interest due the schools and fee account. We also recommend the Sheriff's office comply with KRS 134.140(3)(b) in the future.

Management's Response:

In compliance with now.

7) Former Sheriff H. D. Moses Should Have Collected And Accounted For The Proper Amount Of Advertising Cost And Should Have Paid Advertising Cost To The County

From our analysis of advertising cost, the former Sheriff collected \$10 cost on almost all tax bills collected after the first advertised date of June 26, 1997. The total advertising cost collected by the former Sheriff for taxes amounted to \$750. The former Sheriff did not record these amounts in a ledger, nor pay advertising costs to the County as required by statute. Because the county pays all delinquent publication cost, advertising cost collected by the Sheriff's office should be paid to the county. We recommend that the Sheriff's office collect proper advertising costs in the future and that the above advertising cost of \$750 collected for taxes be paid to Whitley County.

Management's Response:

No response.

8) Former Sheriff H. D. Moses Should Have Recorded And Accounted For Sheriff's Fees

For taxes, the former Sheriff charged and collected a \$5 fee for mailing notices and attaching bank accounts for delinquent taxes. We could find no evidence that this fee had been recorded in a ledger, nor was the amount paid to the former Sheriff's fee account. From tax bills available in the former Sheriff's office, we determined that the \$5 fee began in October 1996 and ended on July 30, 1997. By examining each of the paid tax bills for the above period in the former Sheriff's office, we determined the former Sheriff collected \$5,893 for Sheriff's fees. In the future, we recommend the Sheriff's office record in a ledger all fees collected for taxes. We further recommend the \$5,893 fees collected from taxes be transferred to the former Sheriff's fee account.

Management's Response:

No response.

WHITLEY COUNTY
H. D. MOSES, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
August 12, 1997
(Continued)

9) Former Sheriff H. D. Moses Should Make Final Settlement For School Taxes

Our audit indicated that the former Sheriff failed to make a final settlement with the Whitley County and Corbin Independent Boards of Education. KRS 160.510 states that the Sheriff shall make final settlement with school boards at the same time he makes final settlements with the local taxing authority to which he is responsible. Because the school board settlements were not prepared, auditors were required to use much more time in determining the charges and credits in auditing these two schools' tax collections and distributions. In the future, we recommend the Sheriff's office comply with KRS 160.510 by preparing the two school board tax settlements when final settlements for other taxing districts are prepared.

Management's Response:

This has been corrected.

10) Former Sheriff H. D. Moses Should Have Taken More Care In The Collection, Distribution, And Processing Of Franchise Taxes

1995 Franchise Taxes

- On three of the franchise tax bills, common school taxes were computed and the former Sheriff collected and paid the school these taxes but school taxes should not have been assessed on these bills. The former Sheriff should refund the public service companies as follows:

People's Telephone Company	\$169.52
Coin Phone Management Company	74.51
MCI Telecommunications	<u>27.61</u>
Total	<u>\$271.64</u>

The above payments are reflected in our tax settlement. We recommend refunds to the public service companies be made as soon as possible.

WHITLEY COUNTY
H. D. MOSES, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
August 12, 1997
(Continued)

10) Former Sheriff H. D. Moses Should Have Taken More Care In The Collection, Distribution,
And Processing Of Franchise Taxes (Continued)

1996 Franchise Taxes

- A. Our examination of the 1996 franchise taxes also indicated that a total of twelve franchise bills had been collected by the former Sheriff but were not paid to county and other taxing districts. These bills total \$29,761 and should have been distributed to the taxing districts as follows:

County	\$ 4,244
Health	1,825
Library	1,178
Extension	991
Soil	118
Whitley School	<u>21,405</u>
Total	<u>\$29,761</u>

The above amounts are included in the charges section of our tax settlement and are accounted for in the total tax settlement.

- B. When 1996 franchise taxes were paid to taxing districts for February's collections, an overpayment occurred to the county and other taxing districts, except school district, for the following amounts:

County	\$ 5,617
Health	2,407
Library	1,628
Extension	1,378
Soil	<u>1,378</u>
Total	<u>\$12,408</u>

These overpayments were the result of including the Cumberland Valley RECC tangible tax portion twice when making distributions to districts. The above amounts are accounted for in our tax settlement.

- C. On the June 1997 monthly report for franchise taxes, the county was erroneously overpaid by \$623 and the other districts, except school, were underpaid the same amount. This resulted by paying the county the full taxes for the county and special districts instead of paying each district their allocated tax share. This amount is reflected correctly in our tax settlement and is accounted for in the tax settlement.

WHITLEY COUNTY
H. D. MOSES, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
August 12, 1997
(Continued)

10) Former Sheriff H. D. Moses Should Have Taken More Care In The Collection, Distribution,
And Processing Of Franchise Taxes (Continued)

1996 Franchise Taxes (Continued)

D. All Delinquent And Unpaid Franchise Tax Bills

In the past, delinquent and unpaid franchise tax bills have remained in Sheriff's office after tax settlements have been prepared and delinquent franchise tax bills were not given to County Clerk. With help of the new bookkeeper, we located many of the past years' unpaid franchise tax bills and turned them over to the County Clerk. All unpaid franchise tax bills should be given to County Clerk at the time regular delinquent bills are given to the County Clerk. This would enable the County Attorney to initiate the collection process for these bills as well as regular delinquent tax bills.

In the future, we recommend that an extreme amount of care be given when collecting, making district tax payments, and the overall processing of the county's franchise taxes. Due to the size of some of the franchise corporations, a small percentage error could result in a large dollar amount over or underpayment of taxes. KRS 136.050 details further the collection procedures for franchise taxes.

Management's Response:

No response.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Personal Checks Should Not Be Cashed With Public Funds

Same as Comment 5 on page 16.

Management's Response:

No response.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

1) Former Sheriff H. D. Moses Should Eliminate The Deficit Of \$73,379 In His Tax Account

Same as Comment 1 on page 14.

Management's Response:

No response.

WHITLEY COUNTY
H. D. MOSES, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
August 12, 1997
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2) Internal Controls Over Tax Collections Are Very Poor And Should Be Improved

The former Sheriff had deficiencies in internal controls over tax collections, which includes the following. We recommend the Sheriff's office implement accounting and internal control procedures for tax collection purposes.

- A. The former Sheriff did not make daily deposits of tax collections for taxes. Collection for taxes began on May 1, 1996, but, for the month of May, there were only nine deposits made. Cash and checks were stored in a locked file cabinet inside the Sheriff's office.
- B. The former Sheriff did not reconcile daily batched tax bills with daily checkout sheets or daily deposits. These three amounts should also be reconciled to total taxes collected for regular taxes, franchise taxes and unmined coal taxes.
- C. Reconciliation of monthly tax collections to the monthly tax distributions was not performed. By reconciling these amounts, the Sheriff's office can ensure that all taxes collected have been reported and paid to the taxing districts.
- D. The former Sheriff did not prepare monthly bank reconciliations and compare these reconciliations to ledgers on a monthly basis. Furthermore, collected tax bills were not batched daily and could not be matched to a daily print out. Some daily print out sheets could not be found. Batched paid tax bills should remain with computer print outs at all times.
- E. The former Sheriff's office lacked a proper segregation of accounting duties. We noted this lack of adequate segregation of duties for the internal control structures and its operation that, in our judgement, is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size, and budget restriction, the official has few options for establishing an adequate segregation of duties. The official has considered additional cost when setting budget limits on spending for salaries. The cost of adequate segregation of duties is prohibitive and therefore the official accepts the degree of risk for a lack of adequate segregation of duties.

Management's Response:

Due to a limited budget the number of personnel cannot be increased.

PRIOR YEAR:

- The Former Sheriff Should Have A Written Agreement To Protect Deposits.
- Interest Earnings Should Be Paid To The School Districts On A Monthly Basis.
- The Former Sheriff Should Eliminate The Deficit In His Account.
- Lack of Adequate Segregation of Duties.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr. Auditor of Public Accounts

Honorable Michael L. Patrick, Whitley County Judge/Executive
Honorable Ancil Carter, Whitley County Sheriff
Honorable H. D. Moses, Former Whitley County Sheriff
Members of the Whitley County Fiscal Court

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the former Whitley County Sheriff's Settlement - 1995 Taxes as of August 12, 1997, the former Sheriff's Settlement - 1994 Unmined Coal Taxes and Unmined Coal Taxes as of April 21, 1997, and the former Sheriff's Settlement - 1996 Unmined Coal Taxes as of February 10, 1998 and have issued our report thereon dated August 6, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations. .

- Former Sheriff H. D. Moses Should Eliminate The Deficit Of \$73,379 In His Tax Account
- Former Sheriff H. D. Moses Should Make Settlement For All Taxes
- Former Sheriff H. D. Moses Should Have Required Depository Institutions To Pledge Additional Securities Of \$549,430 As Collateral And Entered Into A Written Agreement To Protect Deposits
- Former Sheriff H. D. Moses Should Have Prepared All Tax Reports And Made Tax Payments On A Timely Basis
- Personal Checks Should Not Be Cashed With Public Funds
- Interest Earned In Tax Account Should Be Paid To Schools And Sheriff's Fee Account

Honorable Michael L. Patrick, Whitley County Judge/Executive
Honorable Ancil Carter, Whitley County Sheriff
Honorable H. D. Moses, Former Whitley County Sheriff
Members of the Whitley County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

- Former Sheriff H. D. Moses Should Have Collected And Accounted For The Proper Amount Of Advertising Cost And Should Have Paid Advertising Cost To The County
- Former Sheriff H. D. Moses Should Have Recorded And Accounted For Sheriff's Fees
- Former Sheriff H. D. Moses Should Have Made Final Settlement For School Taxes
- Former Sheriff H. D. Moses Should Have Taken More Care In The Collection, Distribution, And Processing Of Franchise Taxes

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Whitley County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations.

- Former Sheriff H. D. Moses Should Eliminate The Deficit Of \$73,379 In His Tax Account
- Personal Checks Should Not Be Cashed With Public Funds
- Internal Controls Over Tax Collections Are Very Poor And Should Be Improved

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be material weaknesses.

- Former Sheriff H. D. Moses Should Eliminate The Deficit Of \$73,379 In His Tax Account
- Internal Controls Over Tax Collections Are Very Poor And Should Be Improved

Honorable Michael L. Patrick, Whitley County Judge/Executive
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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett
Auditor of Public Accounts

Audit fieldwork completed -
August 6, 1999

